1997 Annual Report

Taiga Forest Products Ltd.

25 YEARS OF EXCELLENCE

	12 months ended Mar31/98	12 months ended Mar31/97	12 months ended Mar31/96	15 months ended Mar31/95 (unaudited)
Sales and Income (000's)				
Sales	$ 668,041	$ 611,614	$ 383,029	$ 522,308
Cash flow from operations	5,383	6,756	3,145	8,146
Earnings before income taxes	8,435	11,521	4,282	13,951
Net earnings	4,530	5,914	2,313	7,526
Common Share Data				
Common shares outstanding at end of period	3,812,460	3,806,210	3,806,210	3,806,210
Cash flow from operations per share	$ 1.41	$ 1.77	$ 0.83	$ 2.14
Net earnings per share	1.19	1.55	0.61	1.98
Shareholders equity per share	11.99	10.81	9.25	8.65
Financial Position (000's)				
Working capital	$ 30,279	$ 30,537	$ 25,286	$ 25,238
Total assets	157,885	134,904	105,720	110,203
Long term debt	20	70	293	877
Shareholders' equity	45,714	41,134	35,220	32,907
Capital expenditures	5,619	1,396	2,725	2,361
Other Data				
Return on sales	0.68%	0.97%	0.60%	1.44%
Return on capital employed	9.90%	14.33%	6.50%	22.28%
Return on shareholders' equity	9.91%	14.38%	6.57%	22.87%
Ratio of current assets to current liabilities	1.27:1	1.33:1	1.36:1	1.33:1
Long term debt to shareholders' equity	0.001	0.003	0.010	0.027
Inventory turnover – times per year	11.4	13.8	10.3	11.8
Average age of accounts receivable – number of days	32.5	32.6	34.2	32.7

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Business Profile

As Canada's largest wholesale distributor of lumber, panel products and related building materials, Taiga Forest Products Ltd. provides the essential link between manufacturers with large volumes of products to sell, and retailers or industrial customers with smaller, but wider-ranging needs.

Taiga maintains large, balanced product inventories at 14 distribution centres located coast-to-coast across Canada to meet market demand for "just-in-time" inventory. The Company's product mix is focused on the 10 products that represent close to 80 per cent of building products sales. These are augmented with engineered and value-added products, some of which are produced at Taiga's own lumber remanufacturing and pressure treating facilities.

Taiga is also a significant distributor of lumber and panel products to U.S. markets, and operates two re-load centres to serve customers in the U.S.

Product Mix

DIMENSION LUMBER

- All softwood species, specializing in both Western and Eastern SPF
- Pressure Treated Lumber

ENGINEERED WOOD PRODUCTS

- "I" Beams & Joists
- Laminated Veneer Lumber (LVL)

PLYWOOD PANELS & PRESSURE TREATED PLYWOOD PANELS

ORIENTED STRANDBOARD

WOOD MOULDINGS

- Finger jointed pine mouldings
- Oak mouldings
- Medium Density Fibre (MDF) mouldings

"JOHNS-MANVILLE" RESIDENTIAL INSULATION

"CELFORT" RIGID INSULATION

"EMCO" B.P. ASPHALT SHINGLES

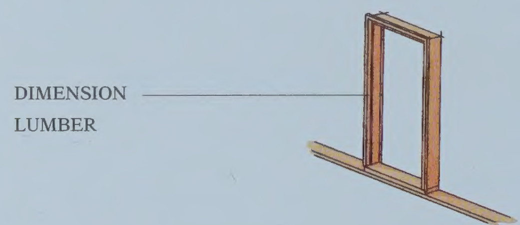
"OWENS CORNING" HOUSE WRAP

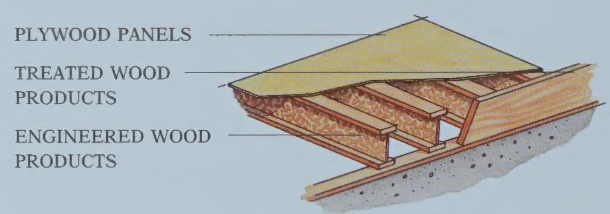
POLYETHYLENE SHEETING

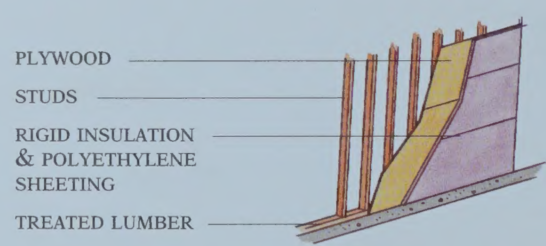
NAILS

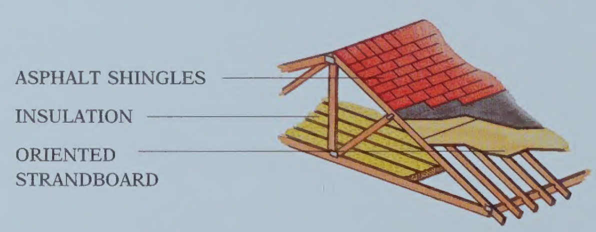
TAIGA PRODUCTION

- Pressure Treated Lumber
- Fencing Panels
- Remanufactured Lumber Products









British Columbia

Nanaimo
Distribution Centre
10,500 sq.ft. building
on 2.0 acres
Leased

Burnaby
Head Office
& U.S. Trading
11,886 sq.ft. building
Leased

New Westminster
Distribution Centre
& Lumber Treatment
43,000 sq.ft. building
on 8.2 acres
Owned

Kelowna
Distribution Centre
14,500 sq.ft. building
on 2.5 acres
Owned

Alberta

Calgary
Distribution Centre
26,000 sq.ft. building
on 4.1 acres
Owned

Edmonton
Distribution Centre
35,000 sq.ft. building
on 6.0 acres
Owned

Saskatchewan

Saskatoon
Distribution Centre
8,000 sq.ft. building
on 2.2 acres
Leased

Regina
Distribution Centre
21,000 sq.ft. building
on 4.2 acres
Owned

Manitoba

Winnipeg
Distribution Centre
14,000 sq.ft. building
on 4.0 acres
Owned

Ontario

Sudbury
Distribution Centre
14,000 sq.ft. building
on 5.0 acres
Owned

Brampton
Distribution Centre
35,800 sq.ft. building
on 5.3 acres
Leased

Milton
Distribution Centre &
Remanufacturing
Plant
38,000 sq.ft. building
on 11.5 acres
Owned

Quebec

Boucherville
Distribution Centre
52,923 sq.ft. building
on 12.0 acres
Owned

St. Augustin
Distribution Centre
36,000 sq.ft. building
on 7.0 acres
Owned

Nova Scotia

Dartmouth
Distribution Centre
10,800 sq.ft. building
on 3.0 acres
Leased

On April 1, 1998, Taiga Forest Products passed a major milestone – our 25th anniversary.

We should have paused and proposed a toast to two and a half decades of success. After all, not every company can lay claim to 25 years of profitability. But the truth is, we were busy serving our customers and manufacturers, navigating volatile markets, expanding our network, preparing for the future – and of course – tallying the financial results from 1997. Those results provided celebration enough.

For the year ended March 31, 1998, Taiga established a new sales record of $668 million – 9.2 per cent higher than the previous record of $612 million set in fiscal 1996. Net income was $4.5 million ($1.19 per share) compared to $5.9 million ($1.55 per share) in fiscal 1996. These were significant achievements given market conditions in 1997.

Although North American housing starts were strong, the supply of lumber and panel products was stronger. The Canada-U.S. Softwood Lumber Agreement, which limits Canadian lumber shipments into the United States, created a glut of lumber on the Canadian side of the border. The supply situation worsened when the collapse of lumber markets in Japan and other Asian countries concentrated more lumber and panel products into the North American market.

The net effect was a steady erosion in lumber and panel prices, accompanied by lower margins. Taiga's gross margins fell from 7.1 per cent in 1996 to 6.2 per cent in 1997, accounting for the decline in earnings. However, Taiga offset much of the impact with a strong increase in sales volumes.

Lumber sales volumes, for instance, increased year over year by 30.5 per cent. Lower sales prices, however, meant an increase in sales dollars of only 14 per cent. We also sold more panel products, although overall dollar sales of panels fell by 5 per cent. In addition, we gained new customers and markets for our allied building products, increasing sales of these products by 11 per cent.

The credit for these accomplishments goes first and foremost to our employees. Taiga's sales force, support staff and management all put in a truly outstanding effort to overcome last year's difficult market conditions.

We also saw a number of our strategic initiatives beginning to pay off in 1997. As a result of our Canadian expansion project, Taiga now operates full-service distribution centres in 14 key Canadian markets. These centres helped us respond to a surge in demand for "just in time" inventory service, and gave us access to the strong economies of the Prairies and Eastern Canada.

New steps taken in 1997 will continue to build on our success. To further our growing business with millwork and manufacturing customers, Taiga acquired Ontario-based Allfor Lumber Inc. in September 1997. Allfor brings us expertise in hardwood and specialty softwood lumber products, and we plan to develop and grow this business in Ontario and other regions of the country.

We also proceeded with construction of a new distribution centre and wood preservation facility in Langley, British Columbia. The new facilities will replace Taiga's existing New Westminster operations late in fiscal 1998, increasing our ability to respond to customer needs in Greater Vancouver and surrounding markets. We plan to sell the New Westminster site once the transfer of operations is complete.

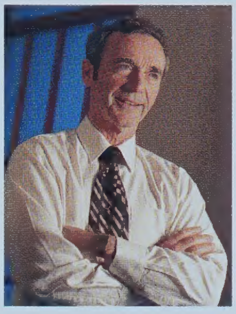
Our outlook for 1998 is very positive. The United States' strong economy and Canada's improving prospects are creating an excellent business climate in North America. Housing starts are expected to continue growing in 1998, and the home improvement and professional contractor markets should also be strong.

We plan to capitalize on these trends as we develop Taiga's role in the market place. We see opportunities to grow our business profitably through acquisitions, and we are exploring these possibilities.

Again last year, Taiga benefited from the wise counsel of our Board of Directors, including our independent directors, the directors from the Berjaya Group Berhad of Malaysia, and Mr. Vincent Tan, Chairman and Chief Executive Officer of the Group. Our thanks to all.

We were very saddened to hear of the sudden and untimely death of Mr. Kim Poh Tan on January 28, 1998. Mr. Tan was one of Taiga's directors, and we will miss his contributions. We extend our sympathy to his family in their bereavement.

Finally, thank you to all of our shareholders. Your support helps us achieve excellence year after year.



Patrick E. Hamill

President and
Chief Executive Officer

25 Years of Excellence

For 25 years, Taiga Forest Products has succeeded in all kinds of market conditions. Even in 1997, a year in which prices for our key commodity products suffered a steady decline, Taiga not only remained profitable, but also established a new company record for sales.

This achievement is testament to Taiga's 25-year commitment to remaining dynamic and flexible.

From our conception as a traditional lumber office wholesaler through to our current position as Canada's largest wholesale stocking distributor of lumber, panel products and related building materials, Taiga has steadily evolved to meet the demands of an ever-changing market place.

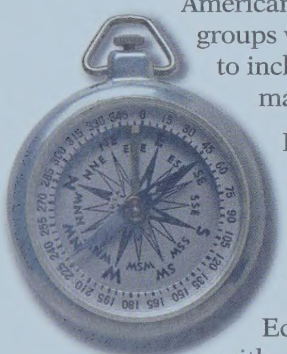
The Distribution Network

When Taiga set out in 1973, our business consisted of buying large volumes of lumber from manufacturers, and reselling them in smaller quantities to customers. Our traders worked over the phone, orders were shipped by rail, and turnaround times routinely stretched into weeks. But times were changing.

The retail building products industry was moving away from buying, storing and managing their own large inventories, and starting to turn the job over to wholesale distribution specialists. Taiga saw an opportunity. We began expanding our network, products and services.

Today, Taiga operates a network of 14 distribution centres and two re-load centres that stretch from Nanaimo, British Columbia to Dartmouth, Nova Scotia. These centres stock a wide range of core building products, and with the help of electronic ordering systems and truck delivery, we can now replenish a customer's inventory on a daily, and even hourly, basis.

The network has brought us many new customers. Taiga now serves more than 5,000 North American building product retailers, including members of Canada's national buying groups who depend on our coast-to-coast reach. Our customer base has also expanded to include industrial customers such as furniture, window, cabinet and mobile home manufacturers.



Last year, our strong distribution capabilities played a major role in our success. Not only could we meet the "just-in-time" inventory needs of customers coast-to-coast, we also had the geographic diversification to take advantage of areas of economic strength.

THE PRAIRIES

Economic conditions were very strong on the Prairies in 1997. Alberta led the way with a strong resource sector and pro-business environment driving housing starts and building activity. Saskatchewan benefited from a rejuvenated agricultural sector. Taiga's distribution centres in Calgary, Edmonton, Saskatoon and Regina capitalized on these conditions to set new records for sales and profits.

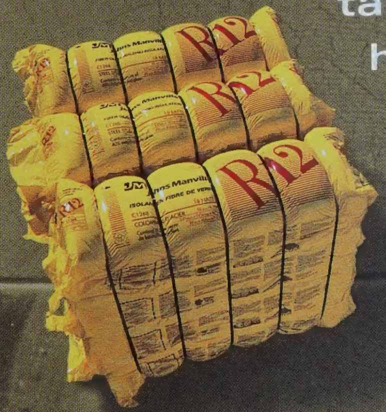
While housing starts were not as robust in Manitoba, Taiga's distribution centre in Winnipeg achieved near-record sales in 1997. Taiga expanded this centre in 1994 – a step which has since helped build our product lines and presence in the region, and contributed to last year's solid financial performance.

The outlook for the Prairie provinces remains very positive, with continued growth expected in 1998. Taiga is currently expanding its offices in Calgary and building its customer support team to respond to the increased business opportunities in the region.

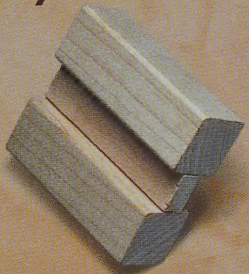
Inventory management has changed dramatically in 25 years. Back in 1973, retailers typically bought products directly from manufacturers, placing large orders once or twice a year, and waiting weeks for delivery. When a shipment arrived, they then had to invest time, effort and capital to store and manage those products until it was time to order again.

Today, Taiga handles the job for them.

Our distribution centres keep a strategic mix of products on the ground, close to customers, in 14 key Canadian markets. Retailers and industrial customers can order small, mixed loads of product as they need them – and take delivery in a matter of hours. It's a service that saves our customers time and money - and helps them remain competitive in today's fast changing retail environment.



Building products have undergone their own evolution. Twenty-five years ago, products like engineered wood I-Beams did not exist. Today, they are a staple at Taiga's distribution centres, and one of our fastest growing product lines.



Made from finger-jointed lumber and oriented strandboard, engineered wood I-Beams provide an alternative to dimension lumber in floor and roof applications. They are lighter and stronger than dimension lumber, and together with Taiga's product engineering support, let builders achieve advanced design specifications easily and inexpensively.

I-Beams are just one of several successful new product types Taiga has helped bring to market over the years. By keeping pace with change in all aspects of our business, we ensure our own successful evolution.

BRITISH COLUMBIA

In contrast to the healthy Prairie economy, British Columbia's economy stalled in 1997 for the first time in more than a decade. Despite the slowdown, Taiga's distribution centres in New Westminster, Nanaimo and Kelowna increased sales volumes.

New market share in the province, and strong performance from all product lines were the primary factors in this increase. Taiga also capitalized on its proximity to the United States and Pacific Rim markets to boost sales.

Taiga is now British Columbia's leading building products wholesale distributor, and we plan to keep strengthening this position. We are currently building a new distribution centre in Langley, British Columbia, which will replace our New Westminster centre when it opens in early 1999. The new operation will enhance our ability to serve customers in the Greater Vancouver region, and extend our reach into the United States.

EASTERN CANADA

Taiga built its presence in Eastern Canada during the lean economic years of the mid 1990s. Between 1993 and 1996, we invested more than $3 million to build and acquire new facilities, and develop a strong Eastern Canadian network made up of six distribution centres. Last year, healthy economic growth returned to this region, and our investment began to pay off.

Ontario's economy experienced the strongest surge, with demand for building products climbing through the year. Taiga's newer centres in Brampton and Sudbury worked with our long-established Milton centre to meet demand across the province.

Quebec also entered a period of economic recovery in 1997, under the influence of a more stable political environment. Sales from our two Quebec operations reflected the renewed activity, but gains were partially offset by a severe ice storm, which brought business to a virtual standstill in January 1998.

In the Maritimes, our Dartmouth centre also performed well in 1997. Newly acquired accounts improved sales volumes without adding costs, and should continue to enhance results in 1998.

Taiga is continuing to strengthen its presence in Eastern Canada with a new emphasis on serving the region's industrial and millwork customers. In September 1997, we acquired Allfor Lumber Inc., an Ontario-based distributor of hardwood lumber and specialty softwood lumber products, and integrated the operation into our Brampton facility. We also expanded our industrial sales force to better serve the many furniture, cabinetry and mobile home manufacturers in this area.

In addition, Taiga proceeded with an expansion project at the Milton, Ontario centre that will provide new offices and an additional 30,000 square feet of warehouse space. Scheduled to open in August 1998, the expansion will increase product capacity and accommodate Taiga's new hardwood and specialty lumber products.

THE UNITED STATES

In addition to serving Canadian retailers, Taiga distributes lumber, panel products and other building supplies to U.S. contractor yards, retailers and buying co-ops. Our distribution centres, together with our re-load centres in Alberta and Ontario help us reach diverse markets south of the border and focus on regions of economic strength.

In 1997, vigorous housing starts and a robust home improvement market in the U.S. led to excellent demand for building products. While an oversupply of lumber drove prices down, hard work by our sales team and Taiga's ability to provide fast delivery helped push 1997 volumes up over the previous year.

The Canada-U.S. Softwood Lumber Agreement, which took effect in 1996, had a minimal effect on Taiga's operations. To date, Taiga has been successful in managing quota restrictions. We are continuing to work closely with both the provincial and federal governments, representing the interests of building product wholesalers and the British Columbia forest industry.

The 1998 outlook for the U.S. market is positive. Continuing high levels of consumer confidence, combined with resurgent job growth and consistent mortgage rates are expected to translate into continued economic growth. We are anticipating strong U.S. sales in the year ahead.

Products

Like our distribution network, Taiga's product mix has evolved in step with changing market needs and industry developments.

When we started in business, lumber was Taiga's only product offering. As we became more involved in the distribution chain, however, we needed a product mix that was big enough to accommodate the retailer's need for one-stop shopping, but small enough to maintain our operating efficiencies and high level of product support.

The solution lay in a strategic blend of the basics. We built our product offering around the 10 core products that represent 80 per cent of retail building yards' sales, and developed strong relationships with the country's most trusted manufacturers.

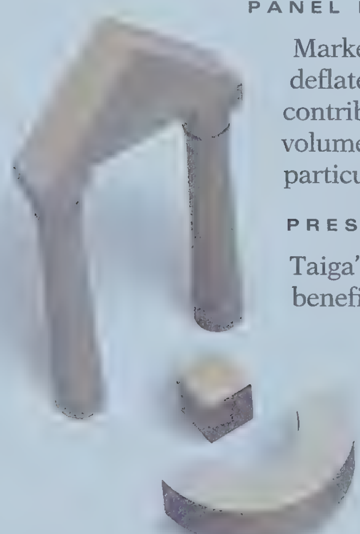
We also remained flexible about our product mix, so that as new products like oriented strandboard, rigid insulation, house wrap and engineered wood products gained widespread acceptance, we could offer them to customers.

Last year, our strategic mix of products helped us maintain balance, focus and efficiency, while responding to the needs of both our customers and suppliers.

LUMBER AND PANEL PRODUCTS

Lumber played a leading role in Taiga's record sales results for 1997, with increases in both sales and volumes. This was a significant achievement given the steady decline in lumber prices throughout the year, and reflects the value of Taiga's lumber experience. Twenty-five years as a lumber specialist has given us the knowledge to succeed, even in volatile markets.

Our "just-in-time" service also played an important role. As commodity prices fell, customers increasingly turned to distributors who could provide smaller and more frequent product shipments to help them hedge against market volatility.



PANEL PRODUCTS

Markets for panel products also suffered in 1997 as oversupply continued to deflate prices for plywood and oriented strandboard (OSB). Lower prices contributed to an overall decline in Taiga's panel sales, but increased OSB volumes offset much of the impact. Western Canadian OSB sales were particularly strong, reflecting our partnership with a key supplier.

PRESSURE TREATED WOOD PRODUCTS

Taiga's sales of pressure treated wood products continued to grow in 1997, benefiting from a robust home improvement market, and our decision to expand distribution of these products in Eastern Canada.

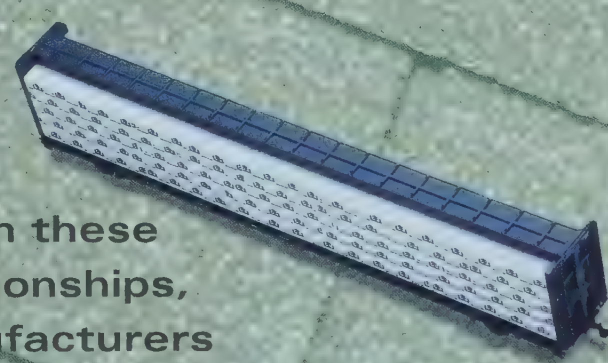
We see a bright future for pressure treated products. These long-lasting lumber products can be used in a wide range of outdoor applications, and their popularity is growing as consumers and builders recognize their environmental and economic value.

In response, we are increasing production of treated wood as part of our strategy to provide customers with customized, value-added products. During 1997 we proceeded with construction of a new, state-of-the-art wood treating plant in Langley, B.C, which will replace the existing plant in New Westminster in July 1998, and provide significantly increased capacity.

Gone are the days when companies tried to handle every business function internally. Companies now join forces with others to achieve mutual success.

Called "partnering", it works by letting each company focus on core strengths, build efficiencies and expertise, and gain a competitive edge.

Taiga recognizes the value of partnering, and has developed close ties with many different manufacturers. We depend on manufacturers to provide the useful, high-quality products retailers will want to carry on their shelves. They depend on us to provide efficient distribution channels to get their products to market, and a high level of product support within their markets.



By working together in these mutually beneficial relationships, both Taiga and our manufacturers achieve a level of success that would be difficult to achieve alone.

SPECIALTY WOOD PRODUCTS

Specialty wood products represent another growth opportunity for Taiga. In September 1997, Taiga acquired Allfor Lumber Inc., a distributor of hardwood and specialty softwood products. The new product line has provided Taiga with a window on the hardwood market and will help us respond to the needs of industrial customers.

The new division carries oak, hackberry, clear hemlock and other woods used in the manufacture of furniture, windows and cabinets. As Ontario and the U.S. are key markets for hardwood, we will focus our attention on these regions initially.

ALLIED BUILDING PRODUCTS

In addition to solid wood products, Taiga distributes allied building products like Johns Manville insulation, engineered wood products, asphalt shingles, mouldings, nails and polyethylene sheeting.

In 1997, sales of our allied building products grew by 11 per cent, reflecting strong housing starts, a good home renovation market, and the expansion of our allied lines into Eastern Canada.

While all lines contributed to strong sales results, we gained new ground with a number of individual products during the year. We continued to increase market penetration with EMCO BP asphalt shingles, a line we first introduced in 1995. Sales have been building steadily ever since, and industry awareness of Taiga in the roofing market is growing. We expect to gain additional market share in the year ahead.

Engineered wood products are also gathering momentum as builders discover how well they perform in applications requiring precise strength and performance characteristics. Taiga's sales of engineered wood products have more than doubled in the past four years, and we anticipate continued growth. We are forming strong partnerships with the suppliers of I-Beams and laminated veneer lumber products, and increasing product support in Western Canada, where sales of these products have been rising rapidly.

Taiga added a new product to its mix last year. Based on our success with Owens Corning's line of rigid insulation, this well known manufacturer granted Taiga the exclusive Canadian rights to its new house wrap product. "Pink House Wrap" is a specialized product designed to prevent damaging moisture build-up inside walls, and Taiga is pleased to participate in its launch.

Taiga Today...and Tomorrow.

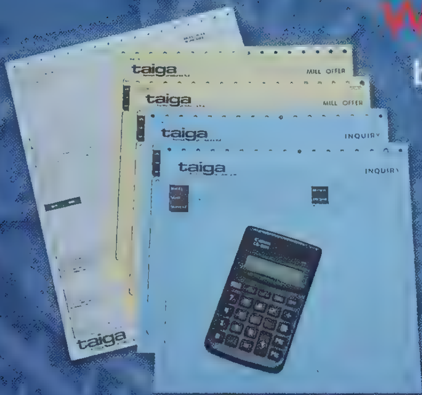
Today, 25 years after starting business, Taiga's evolution is evident in our full service, coast-to-coast network of distribution centres, strategic mix of high-quality products, and close partnerships with suppliers and customers. Each of these has developed from a willingness to respond to changing needs. Each has gone on to play a major role in our success.

Now, our evolution is continuing as we turn our attention to new trends and opportunities.

As the U.S. box stores increase competition at the retail level, we are helping customers find ways to lower costs and improve efficiency. As sophisticated new products come to market, we are introducing the very best to our customers in partnership with suppliers. And as new technology provides better and faster ways to manage our business, we are continuing to equip Taiga for the future.

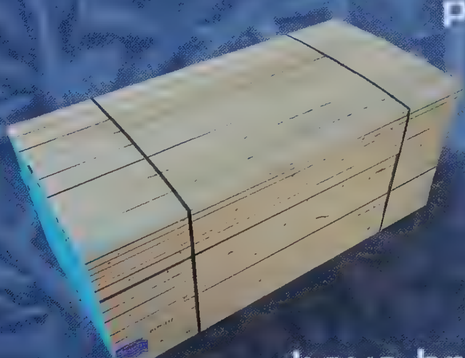
At the close of 1997, our 25th year, we were hard at work improving our facilities, strengthening the product mix, looking for new and better ways to serve the market, and laying the foundation for another 25 years of success.

Dependable Sales, Service and Product Support

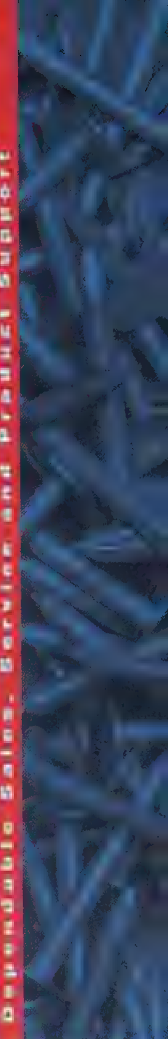


While nearly every facet of Taiga's business has changed over the past 25 years, one essential element has remained the same. We still depend on knowledgeable, motivated, service-oriented people to achieve success.

From the trading floor, where sales are made, to the distribution centres where orders are assembled and shipped, Taiga's top-notch people work together to improve results year after year. Our traders provide expertise, helping us navigate volatile markets. Our distribution centre employees move quickly to get products to retailers. And our product support teams provide the information and back up to build strong customer loyalty for the products we distribute.



It is our people who have brought Taiga success in the past. And it is our people who will ensure our success in the years ahead.



RESULTS OF OPERATIONS

For the 12 months ended March 31, 1998, Taiga's sales increased 9.2% to $668 million from $612 million in fiscal 1996. Earnings were $4.5 million or $1.19 per share, compared to $5.9 million or $1.55 per share in the previous year.

During fiscal 1997, lumber products accounted for $456.7 million or 68% of Taiga's total sales ($400.5 million or 65% in 1996), panelboards accounted for $133.1 million or 20% of total sales ($140.7 million or 23% in 1996), and allied building products accounted for $78.2 million or 12% of total sales ($70.5 million or 12% in 1996).

The Company's sales performance reflects strong demand for building products in North America. Low mortgage rates and increased employment levels continued to drive the new housing and residential repair and renovation markets. Housing starts in Canada increased 18% to 147,000 in calendar 1997, from 124,713 in calendar 1996.[1] Canadian renovation expenditures increased 11.4% to almost $22 billion year over year.[2] Housing starts in the United States were reported at 1.48 million for calendar 1997, up marginally from 1.47 million in 1996.[3]

Taiga's net income after income tax was $4.5 million for 1997, compared to $5.9 million in 1996. Earnings did not keep pace with the growth in sales because of lower prices and margins caused by oversupply in the North American market. The economic downturn in Japan and other areas of the Pacific Rim was the primary reason for the oversupply situation. Producers that normally export wood products to these markets, redirected inventory to North America and Europe instead. With supply exceeding demand, prices and margins fell, and have remained at a cyclical low.

According to Random Lengths May 8, 1998 report, the framing lumber composite price index hit its lowest level in more than two years in the first week of May 1998, and the price for the benchmarked 2x4 SPF random length has dropped from $480 US per thousand board feet in the middle of the fourth quarter of 1996, to a low of $286 US in the fourth quarter of 1997.

Lumber supply is also being affected by two other factors: increasing global competition among building products manufacturers, and the emergence and growing acceptance of substitute products for traditional lumber and panel boards.

On the lumber side, engineered products like wood I-Joists, are increasingly being used in place of certain sizes of lumber. Taiga currently sells engineered wood products at 10 of its 14 distribution centres. The Company increased sales of engineered wood products from $3.7 million in fiscal 1995 to $11 million in 1997, realizing strong margins on these products. The custom cutting of I-Joist and laminated beams enables Taiga to provide customers with a value-added product that complements the Company's core product lines.

Although Taiga's sales for panel boards were down in 1997, panels returned higher profits to the Company in 1997 than in the previous year. Within this product group, oriented strandboard (OSB), pourform and particle board performed well. OSB is used as a substitute product for traditional fir and spruce plywood. Pourform is a composite panel product treated with a special non-stick substance, which is used in the construction industry for concrete forms. The "ready to assemble" and "home office" furniture markets are growth sectors which account for the increased sales and profits for particle board.

Sales of spruce and fir plywood accounted for 43% of panel sales in 1997 compared to 44% of panel sales in 1996, but profit contribution from plywood sales was down year over year, partially due to the strong performance of OSB as a substitute product.

Allied products include wood mouldings, residential and rigid insulation, asphalt shingles, polyethylene sheeting, nails and remanufactured lumber products including custom cut lumber and fencing panels. Taiga's sales of allied products increased 12% year over year. Within this group, strong performers included wood mouldings, 'Johns Manville' residential insulation, 'Emco' B.P. asphalt roofing, and rigid 'Celfort' insulation.

FINANCIAL POSITION

During the 12 months ended March 31, 1998, Taiga generated cash flow of $5,382,757 from operations.

The wholesale distribution of building products is not a capital intensive business, but 1997 was a year of facility replacement and expansion for the Company, with expenditures of $5,619,487 on fixed assets. All of these expenditures were funded from current earnings.

The most significant project undertaken during the period was the purchase of new land in preparation for relocating Taiga's New Westminster distribution centre to British Columbia's Lower Mainland. With residential development encroaching on the existing site, the Company has opted to relocate the facility while suitable sites are still available elsewhere in the Vancouver area. The total budget for this move is $11 million, before taking account of proceeds from the eventual sale of the New Westminster site.

The relocation project commenced in November 1997 with the purchase of a 16-acre site in a Fraser Valley industrial park, 50 kilometres east of the City of Vancouver, and 45 kilometres from the Company's existing operation. The distribution centre storage yard, warehouse and office will occupy 10 acres of the new site. The remaining six acres will accommodate Taiga's wood preservation facility, which is also relocating from New Westminster.

The new wood preservation facility is scheduled to commence operation in August 1998, and will operate as Envirofor Preservers (B.C.) Ltd. The construction schedule for the distribution centre is contingent upon the timing of the sale of the existing 8.2 acre New Westminster site.

Other fixed asset expenditures in fiscal 1997 included $200,000 of a budgeted $1.3 million for a warehouse and office expansion at Taiga's Milton, Ontario distribution centre. The expanded facilities will consolidate sales and administration personnel from the Brampton and Milton operations.

Taiga also relocated its Burnaby head office in 1997, spending $400,000 for leasehold improvements and new furnishings as of March 31, 1998. The move was forced by the expiry of the Company's former office lease. Taiga has since signed a long term lease at its new Burnaby location.

The remaining $500,000 in fixed asset expenditures was used to upgrade Taiga's operations in Saskatchewan, including improvements to the Regina office and storage yard, leasehold improvements at the Saskatoon distribution centre and equipment purchases in various branches.

During fiscal 1997, Taiga repaid $222,310 in long term debt, lowering the Company's remaining long term debt to $19,793 by year end. On March 31, 1998, shareholders' equity had increased to $45,714,436 from $41,134,111 on March 31, 1997, and working capital was $30,279,379.

Taiga is currently negotiating a new bank financing arrangement which will include some long term debt financing. The term financing will be used to fund the completion of capital projects currently underway, and will also be used for general business purposes.

Under the terms of the Company's existing credit agreement with a Canadian chartered bank, Taiga has access to a committed facility which provides an operating credit line of $83 million. Taiga's short term borrowings are secured by an assignment of accounts receivable and inventories, and by a debenture containing a floating charge over all other assets. At March 31, 1998, the Company had not used approximately $5 million of credit lines available.

The Company's capital expenditure plan for the 1998 fiscal year totals $11.6 million. This includes completion of the relocation of the New Westminster wood preservation facility and distribution centre to Langley, B.C., and the completion of the Milton, Ontario warehouse and office expansion. In addition, $1 million is planned for the ongoing equipment replacement and branch renovation program, and $3 million for other ventures.

RISK FACTORS

Inventory

The wholesale building products distribution industry is characterized by large sales volumes and low gross margins. It is highly sensitive to price, quality, timeliness of delivery and continuity of supply. In addition, demand for some of Taiga's products is cyclical and prices can change rapidly.

The Company's buying practices are designed to minimize the risk of rapidly changing prices, although there can be no assurance that such practices will reduce risk. Taiga does not generally hedge its inventory risk through the purchase of lumber futures contracts. Substantially all purchases are made based on current orders and anticipated sales, and substantially all sales are made against inventory or product on order. Inventory levels are monitored in an attempt to achieve balance between maximum inventory turnover and optimal customer service. It is the Company's management policy to turn inventory 12.5 times per year. As a wholesale building products distributor, Taiga maintains significant quantities of inventory, the value of which is subject to the risk of changing prices.

Currency

The performance of the Canadian dollar compared to the U.S. dollar presents a certain valuation risk for inventories purchased specifically for the U.S. markets. Taiga does not generally hedge these inventories with U.S. exchange forwards, relying instead on rapid inventory turnover. The Company continually monitors exchange trends and sells U.S. receipts into the spot market at the most advantageous rates possible.

At March 31, 1998, the company had outstanding obligations to sell US $3,000,000 at an average rate of CDN$ 1.4436 during 1998.

Credit Risk

The Company extends credit to its customers, which is generally unsecured. The loss of a large receivable can have a substantial effect on the Company's profitability. Taiga employs credit insurance on its largest accounts to reduce the exposure to large credit

losses, and a system of credit management is in place to mitigate the risk of losses due to the insolvency or bankruptcy of customers.

Year 2000

Taiga is aware of the risks associated with the Year 2000 issue, and has been working for the past year to manage and minimize those risks. All computer files have been modified, and the Company is now in the final stages of testing. Taiga plans to be fully Year 2000 compliant by June 30, 1998. The Company is also working with suppliers and customers to gauge their progress towards Year 2000 compliance.

Canada-U.S. Softwood Lumber Agreement

On April 1, 1996, the Canada-U.S. Softwood Lumber Agreement took effect. This is a quota system agreed to by the federal and provincial governments in Canada, and by the United States industry and trade officials, which limits the amount of softwood lumber Canada can export to the United States.

Under this agreement, the Canadian federal government allocated the total lumber export allotment of 14.7 billion board feet to primary producers and re-manufacturers in the Canadian lumber producing provinces. As a wholesale distributor, Taiga was not allocated quota directly.

With the goal of not disrupting historical lumber distribution channels, the softwood lumber industry, in partnership with the Canadian government, worked out a quota transfer system which allows Taiga to continue distributing softwood lumber in the United States on a "business as usual" basis.

The current Canada-U.S. Softwood Lumber Agreement expires March 31, 2001. The Company does not expect that amendments to the Softwood Agreement will affect its ability to distribute products to the United States.

MARKET OUTLOOK

Although most North American building products market indicators have been favourable and improving throughout 1997, and are forecast to remain favourable through 1998 and 1999, the market for dimension lumber has experienced approximately 19 months of falling prices with only periodic, short price rallies over this period. Lumber prices are not expected to improve significantly in 1998.

Demand for dimension lumber is expected to remain strong in response to strong housing starts and a robust residential housing repair and renovation market in Canada. High demand may not translate into higher lumber prices due to continued oversupply in the North American market.

Canada's Gross Domestic Product (GDP), which grew 3.7% between calendar 1996 and 1997, is expected to grow about 2.75% in 1998. Steady economic expansion, improved job creation, and low mortgage carrying costs should drive further improvement in housing starts over the next two years. Total Canadian housing starts are expected to rise from 147,000 in 1997 to 157,900 in 1998 to 160,700 in 1999.[4] Repair and renovation spending is expected to continue rising from $22.0 billion in 1997 to $23.4 billion in 1998.[5]

In its National Housing Outlook forecasts, Canada Mortgage and Housing Corporation predicts the strongest growth will come from Ontario and Alberta. Both provinces are experiencing net in-migration and stronger levels of economic growth than British Columbia, Quebec and the Maritime provinces.

Taiga is forecasting higher Canadian sales in all product classes in 1998. In particular, allied and value-added allied products are expected to play a more important role. These products provide a strong complement to the Company's core commodity lumber and panel board product sales, with more stable margins and opportunities for expanded market share.

The United States economy remains strong. On an annual basis, Gross Domestic Product grew 3.8% from 1996 to 1997, and is expected to increase another 3.2% in 1998.[6] The National Home Builders Association of the United States forecasts a marginal reduction in total housing starts for 1998 to 1.446 million from 1.478 million in 1997.

With two consecutive years of strong housing starts, 1998 is expected to be a growth year for residential renovation and remodeling expenditures, which will increase demand for dimension lumber, panel board, and other building products. Taiga expects sales of commodity lumber to the United States will increase in 1998 in response to the demand created in the housing and construction markets. However, market conditions will remain competitive due to continued oversupply in North America, and the general growth in the supply of wood products in the world economy.

Taiga is forecasting growth in sales and profits, in both Canada and the United States, for the ensuing fiscal year.

1 *Canada Mortgage and Housing Corporation, Housing Facts, May 8, 1998*
2 *Canada Mortgage and Housing Corporation, Renovation Market Outlook, 1997-1998*
3 *US Census Bureau, Residential Construction Branch, March 1998*
4 *Canada Mortgage and Housing Corporation, National Housing Outlook, first quarter 1998.*
5 *Canada Mortgage and Housing Corporation, Renovation Market Outlook, 1997-1998.*
6 *National Home Builders Association, Washington, DC*

Management's Responsibility

The information and representations in this report were prepared by Taiga Forest Products Ltd. management. The financial statements were prepared in conformity with accounting principles generally accepted in Canada, and where necessary, reflect management's best estimates and judgements. The financial information presented throughout this report is consistent with that contained in the financial statements.

The Company maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets.

The financial statements have been examined by the Company's auditors, Deloitte and Touche, and they have issued their report thereon.

The Board of Directors is responsible for overseeing management in the performance of its responsibilities for financial reporting. The Board exercises its responsibilities through the Audit Committee comprised of three directors, two of whom are not officers of the Company. The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The financial statements have been reviewed by the Audit Committee which recommended their approval by the Board of Directors.

Patrick E. Hamill
Chief Executive Officer
Vancouver, B.C.
May 1, 1998

Auditors' Report

To the Shareholders of
Taiga Forest Products Ltd.

We have audited the consolidated balance sheets of Taiga Forest Products Ltd. as at March 31, 1998 and March 31, 1997, and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and March 31, 1997, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles consistently applied.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
Vancouver, British Columbia
May 1, 1998

Consolidated Balance Sheets

March 31, 1998 and 1997

		1998	1997
ASSETS			
CURRENT			
Accounts receivable		$ 70,337,113	$ 61,315,718
Income taxes receivable		216,068	–
Inventories	Note 2	70,557,589	62,018,417
Prepaid expenses		1,291,380	745,828
Deferred income taxes		–	77,228
		142,402,150	124,157,191
OTHER ASSETS AND INVESTMENTS		122,619	176,191
FIXED ASSETS	Note 3	15,359,948	10,570,840
		$ 157,884,717	$ 134,904,222
LIABILITIES			
CURRENT			
Bank indebtedness	Note 5	$ 78,372,069	$ 60,489,140
Accounts payable		33,703,230	29,683,588
Current portion of long-term debt	Note 6	47,472	219,995
Income taxes payable		–	3,227,236
		112,122,771	93,619,959
DEFERRED INCOME TAXES		27,717	80,572
LONG-TERM DEBT	Note 6	19,793	69,580
		112,170,281	93,770,111
SHAREHOLDER'S EQUITY			
Capital stock	Note 7	11,929,460	11,879,460
Retained earnings		33,784,976	29,254,651
		45,714,436	41,134,111
		$ 157,884,717	$ 134,904,222

Approved by the Directors

Patrick E. Hamill
Director

J. Brian Aune
Director

Consolidated Statements of Earnings and Retained Earnings

March 31, 1998 and 1997

	1998	1997
SALES	$ 668,040,605	$ 611,614,390
COST OF SALES	626,507,256	568,342,692
GROSS PROFIT	41,533,349	43,271,698
EXPENSES		
Distribution, selling and administration	30,127,339	29,634,496
Interest		
Current	2,870,116	2,048,416
Long-term	7,234	20,319
	33,004,689	31,703,231
OPERATING INCOME	8,528,660	11,568,467
NON-OPERATING EXPENSE	94,035	47,667
EARNINGS BEFORE INCOME TAXES	8,434,625	11,520,800
INCOME TAXES	3,904,300	5,606,648
NET EARNINGS FOR THE YEAR	4,530,325	5,914,152
RETAINED EARNINGS, BEGINNING OF YEAR	29,254,651	23,340,499
RETAINED EARNINGS, END OF YEAR	$ 33,784,976	$ 29,254,651
Earnings per share	$ 1.19	$ 1.55

Consolidated Statements of Changes in Financial Position

March 31, 1998 and 1997

		1998	1997
Operating Activities			
Net earnings		$ 4,530,325	$ 5,914,152
Items not requiring an outlay of funds			
Depreciation and amortization		830,379	845,734
Gain on disposition of fixed assets		(2,320)	(54,460)
Deferred income taxes		24,373	50,648
		5,382,757	6,756,074
Change in non-cash operating working capital	Note 9	(17,529,781)	(18,648,909)
		(12,147,024)	(11,892,835)
Financing Activities			
Repayment of long-term debt		(222,310)	(213,295)
Issuance of common shares		50,000	–
		(172,310)	(213,295)
Investing Activities			
Proceeds on disposition of fixed assets		2,320	85,221
Purchase of fixed assets		(5,619,487)	(1,395,732)
Other assets and investments		53,572	53,571
		(5,563,595)	(1,256,940)
Net cash outflow		(17,882,929)	(13,363,070)
BANK INDEBTEDNESS, BEGINNING OF YEAR		(60,489,140)	(47,126,070)
BANK INDEBTEDNESS, END OF YEAR		$ (78,372,069)	$ (60,489,140)

March 31, 1998 and 1997

1. ACCOUNTING POLICIES

(a) Consolidation

These financial statements include Taiga Forest Products Ltd. and its wholly-owned subsidiaries, 548419 British Columbia Ltd., 548421 British Columbia Ltd. and 548422 British Columbia Ltd.

(b) Fixed assets and depreciation

Fixed assets are recorded at cost and depreciation is provided annually using the following methods and rates:

	Rate	Method
Buildings	5 %	Declining balance
Furniture and office equipment	8% to 30 %	Declining balance
Warehouse and manufacturing equipment	10% to 30 %	Declining balance
Other properties	2-1/2 %	Straight-line
Leasehold improvements	20 %	Straight-line

(c) Inventories

Yard, reload, remanufacturing and treating inventories are valued at the lower of average cost and net realizable value.

2. INVENTORIES

	1998	1997
Lumber products	$ 51,645,558	$ 40,560,002
Panel products	8,661,988	11,777,882
Allied building products	10,250,043	9,680,533
	$ 70,557,589	$ 62,018,417

3. FIXED ASSETS

(a)

	1998 Cost	1998 Accumulated Amortization	1998 Net Book Value	1997 Net Book Value
Land	$ 6,582,098	$ –	$ 6,582,098	$ 3,211,446
Buildings	8,775,831	2,373,537	6,402,294	5,271,897
Furniture and office equipment	1,571,587	1,128,171	443,416	473,309
Warehouse and manufacturing equipment	4,335,563	3,136,691	1,198,872	1,257,680
Other properties	666,893	346,268	320,625	345,162
Leasehold improvements	661,730	249,087	412,643	11,346
	$ 22,593,702	$ 7,233,754	$ 15,359,948	$ 10,570,840

(b) The Company is moving its New Westminster operations to a new facility in Langley, British Columbia. As at March 31, 1998, construction expenditures of $4.6 million have been capitalized. Expenditures to complete the project are estimated at $6.2 million which will be partially offset by proceeds from the sale of the existing facility.

4. FINANCIAL INSTRUMENTS

The Company has financial instruments which include accounts receivable, bank indebtedness, accounts payable and accruals, and long-term debt, the carrying values of which approximate fair values at March 31, 1998 and 1997.

Financial risk is the risk to the Company's earnings that arises from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. Approximately 30% of the Company's sales are denominated in US currency. Normally cash receipts from these sales are sold into the spot market at prevailing exchange rates. As at March 31, 1998, the Company has outstanding obligations to sell $US 3.0 million at an average rate of $CDN 1.4436 during 1998. Based on the exchange rate at March 31, 1998, there is no significant unrealized gain or loss with respect to these commitments.

5. BANK INDEBTEDNESS

	1998	1997
Excess of cheques written over cash in bank	$ 9,551,066	$ 14,798,525
Multi Option Credit Facility secured by a general assignment of book debts and inventories and a $100,000,000 demand debenture creating a floating charge on all property and assets of the Company	68,821,003	45,690,615
	$ 78,372,069	$ 60,489,140

6. LONG-TERM DEBT

	1998	1997
Loans payable, bearing interest of between 2.71% and 11.39%, payable in monthly blended installments of between $1,225 and $2,084 due on or before January 2000	$ 50,874	$ 84,218
Mortgage payable, bearing interest at the Company's bank's prime rate plus 1%, one month's payment remaining	16,391	205,357
	67,265	289,575
Less: current portion	47,472	219,995
	$ 19,793	$ 69,580

7. CAPITAL STOCK

Authorized 50,000,000 common shares

Issued and outstanding;

	Number of shares	Amount
March 31, 1996	3,806,210	$ 11,879,460
March 31, 1997	3,806,210	11,879,460
Issued on options	6,250	50,000
March 31, 1998	3,812,460	$ 11,929,460

The Company has established a stock option plan for directors and employees.
As at March 31, 1998, the Company has reserved 73,750 common shares for this plan.

8. COMMITMENTS

The Company has obligations in respect of operating leases for premises and equipment as follows:

1999	$ 1,201,047
2000	827,198
2001	328,087
2002	255,550
2003	199,480

9. CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	1998	1997
Accounts receivable	$ (9,021,395)	$ (15,762,641)
Inventories	(8,539,172)	(12,712,658)
Prepaid expenses	(545,552)	(267,264)
Accounts payable	4,019,642	7,908,994
Income taxes payable	(3,443,304)	2,184,660
	$ (17,529,781)	$ (18,648,909)

10. SEGMENTED INFORMATION

The Company operates primarily in the wholesale products distribution industry segment.

During the year ended March 31, 1998, the Company had export sales to the United States in the amount of $CDN 199,082,000 (1996 - $CDN 186,168,000).

Corporate Information

BOARD OF DIRECTORS

J. Brian Aune
Montreal, Quebec

Jimmie Bradshaw
North Vancouver, B.C.

H. Douglas Butterworth
West Vancouver, B.C.

Patrick E. Hamill
Burnaby, B.C.

Douglas Morris
Toronto, Ontario

Saul Spears
Toronto, Ontario

Chee Fong (Paul) Yeong
Selangor, Malaysia

Robert Yong Kuen Loke
Kuala Lumpur, Malaysia

OFFICERS

Patrick E. Hamill
President, CEO

H. Douglas Butterworth
Vice President

Jimmie Bradshaw
Vice President,
Building Materials

Douglas Morris
Vice President,
Eastern Operations

Lloyd Hansen
Chief Financial Officer

David S.D. Hossie
Secretary

TRANSFER AGENT

Montreal Trust Company
Vancouver, B.C.

AUDITORS

Deloitte & Touche
Vancouver, B.C.

STOCK EXCHANGE

Toronto

Trading Symbol

TFP

SOLICITORS

Davis & Company
Vancouver, B.C.

TAIGA FOREST PRODUCTS LTD.

Head Office
Suite 800 – 4710 Kingsway
Burnaby, B.C.
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(604) 438-1471

taiga

ANNUAL GENERAL MEETING

The 5th Annual General Meeting of the Company will be held in the Strathcona Room of the Four Seasons Hotel, 791 West Georgia St., Vancouver, B.C. at 11:00 am on July 22nd, 1998.

Printed in Canada

taiga

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